



India-ASEAN Maritime Connectivity and Related Issues.



How Shipping Routes (NOT RATES) evolve?



A. LIQUID BULK (Crude and POL)–

- Because of few fixed areas of production and ships inability to carry different cargoes, except for political disturbances , routes remain unchanged over a long time with ships going Empty one way between same ports/region.



B. DRY BULK

- Iron ore, Grain, Coal, Bauxite/Alumina and Phosphate rock are Five major commodities account for 54 % of Dry cargo.
- Bulker Ships are designed carry one or two Dry Bulk commodities in Bulk.
- Demand and Supply is subjected to uncertainties of economic factors and also factors beyond human Control e.g Natural calamities, Politics & local issues.
- Bulk shipping remains very dynamic and subjected to changes due to seasonal changes & other factors. Even if the Annual Total size of Trade may remain same!



C. Container Liner Operations

- Containers brought most radical changes in Shipping services! It has witnessed phenomenal consistent Global growth because it brought almost a part of ship i.e. container 1000 miles inland.
- Ship Owners identity as a carrier lost it's shine to container operators. And over a period the situation is, Container shipping no more has a ship at it's core of the business.
i.e. Having a Ship does not necessarily give the benefit unless you have the ability to control full chain.



- And this has been the Tough Challenge Indian companies find difficult to overcome.
- Huge capital requirement, Control Over Logistics Network a “MUST” makes it a high entry barrier for new players.
- Mega carriers by integrating business of Ship owning now control majority of container businesses.
- Top 3 carriers hold more than 33% of container capacity and top 10 have 60% of global capacity.

Table 2.5. The 20 leading liner companies, 1 January 2013 (Number of ships and total shipboard capacity deployed, in TEUs)

Ranking (TEU)	Operator	Country/ territory	Number of vessels	Average vessel size	TEU	Share of world total, TEU (percentage)	Cumulated share, TEU (percentage)	Growth in TEU over 2012 (percentage)
1	Maersk Line	Denmark	453	4 745	2 149 524	13.4%	13.4%	2.1%
2	MSC	Switzerland	398	5 186	2 064 118	12.9%	26.2%	1.9%
3	CMA CGM Group	France	288	4 004	1 153 088	7.2%	33.4%	-0.7%
4	COSCO	China	155	4 614	715 219	4.5%	37.9%	14.6%
5	Evergreen Line	Taiwan Province of China	187	3 795	709 702	4.4%	42.3%	24.3%
6	Hapag-Lloyd Group	Germany	141	4 533	639 148	4.0%	46.3%	-1.5%
7	APL	Singapore	127	4 492	570 497	3.6%	49.8%	-4.9%
8	CSCL	China	124	4 550	564 151	3.5%	53.3%	1.3%
9	Hanjin	Republic of Korea	107	5 190	555 279	3.5%	56.8%	11.6%
10	MOL	Japan	111	4 576	507 894	3.2%	60.0%	13.2%
11	OOCL	Hong Kong (China)	102	4 442	453 044	2.8%	62.8%	14.0%
12	NYK	Japan	93	4 334	403 030	2.5%	65.3%	28.0%
13	Hamburg Sud	Germany	93	4 132	384 293	2.4%	67.7%	4.1%
14	HMM	Republic of Korea	67	5 438	364 373	2.3%	70.0%	15.8%
15	Yang Ming	Taiwan Province of China	86	4 222	363 057	2.3%	72.2%	5.7%
16	K Line	Japan	75	4 558	341 848	2.1%	74.3%	-0.2%
17	Zim	Israel	71	3 978	282 411	1.8%	76.1%	-7.1%
18	UASC	Kuwait	41	6 361	260 818	1.6%	77.7%	36.5%
19	CSAV	Chile	55	4 716	259 391	1.6%	79.3%	-25.5%
20	PIL	Singapore	98	2 426	237 776	1.5%	80.8%	0.3%
Total top 20 liner companies			2 872	4 519	12 978 661	80.8%		
Others			2 957	1 041	3 079 572	19.2%		
Total all liner companies			5 829	2 755	16 058 233	100.0%		



OUT OF TOTAL 155 MILLION TEUS TRADE NEARLY ONE THIRD (46.5 MILLION TEUS) IS COVERED BY ONLY THREE ROUTES –

- **ASIA- NORTH AMERICA & VV - 20.2 Million**
- **ASIA-EUROPE & VV - 20.0 Million**
- **EUROPE- NORTH AMERICA & VV 6.3 Million**

Unctad Report 2013



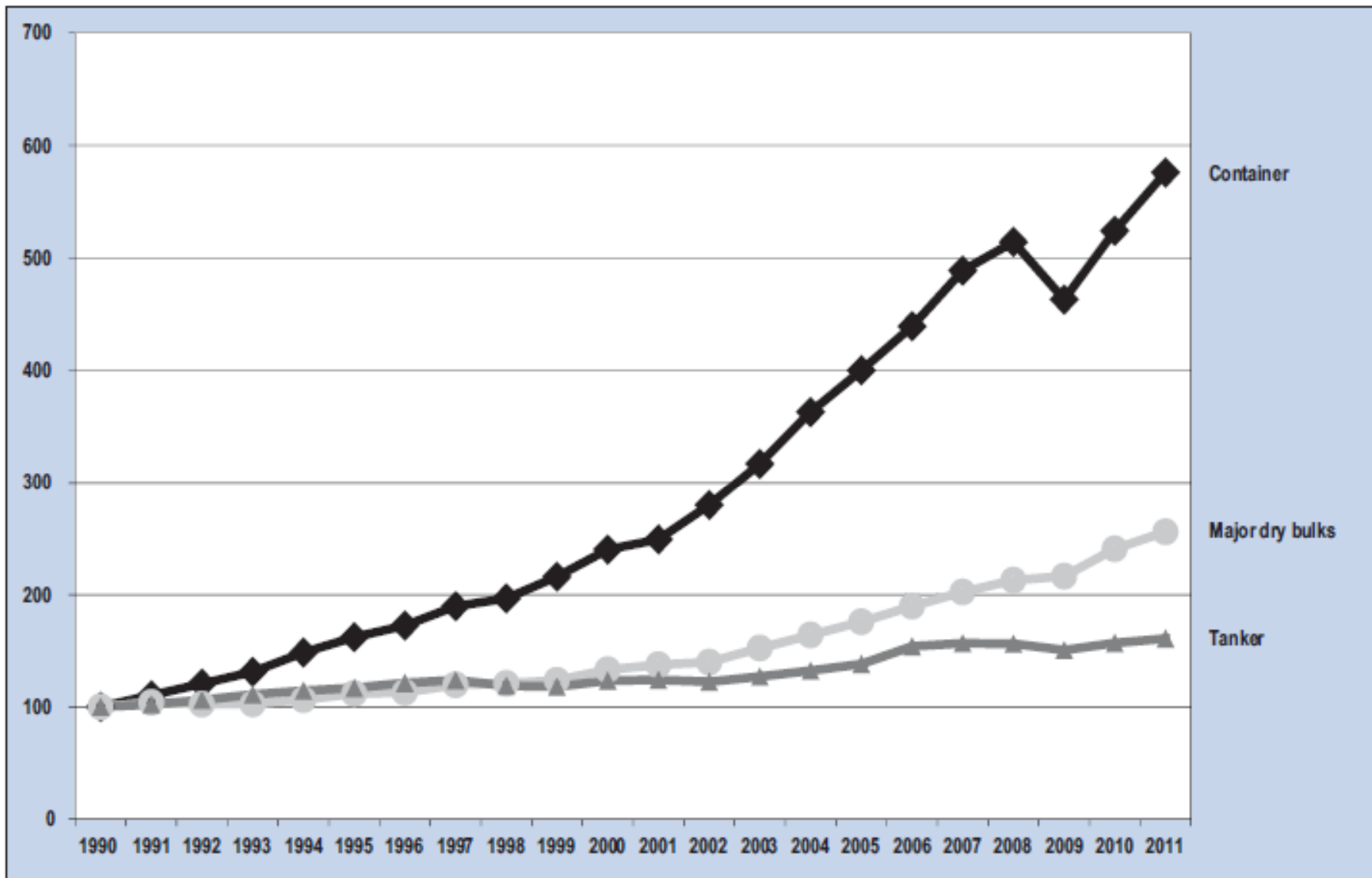
SCI the only Indian Main Line Operator ranks 49th in world .

Thus INDIA ASEAN Sea borne trade is dependent on Foreign carriers who have commercial compulsions or different priorities in routing their ships.

What Could be their compulsions?



Figure 1.6. Indices for global container, tanker, and major dry bulk volumes, 1990–2011 (1990 = 100)



Source: UNCTAD secretariat, based on *Review of Maritime Transport*, various issues; and on Clarkson Research Services, *Shipping Review and Outlook*, Spring 2011.



CONTAINER VESSEL SIZE AND IT'S ROLE IN ECONOMY OF SCALE

Port to Port distance		N Miles
Nhava Sheva- Laemb chabang		3229
Chennai-Laemb Chabang		2377
	Per Ton	
Fuel Oil	\$ 650.00	

Contd...

SHIP capacity Tons	TEU capacity (20')	Spd knots	<u>Fuel</u> day tons	Chennai Round Trip Total <u>Fuel</u> cost	Per Teu Fuel Cost CHN	NSV Round Trip Fuel cost	Per teu <u>Fuel</u> cost NSV
14148	1162	17	31	234,787	202	318943	274
18400	1129	18.5	40	278,387	247	378171	335
101500	8501	25.6	248	1,246,803	147	1693701	199
66160	5117	25	173	890,979	174	1210337	237
110908	8800	22	172	1,006,623	114	1367433	155
155438	13798	24	260	1,394,837	101	1894795	137
165517	13988	24	260	1,394,837	100	1894795	135

Essentials of Container Operations -



- Frequency
- Schedule Integrity
- Costs

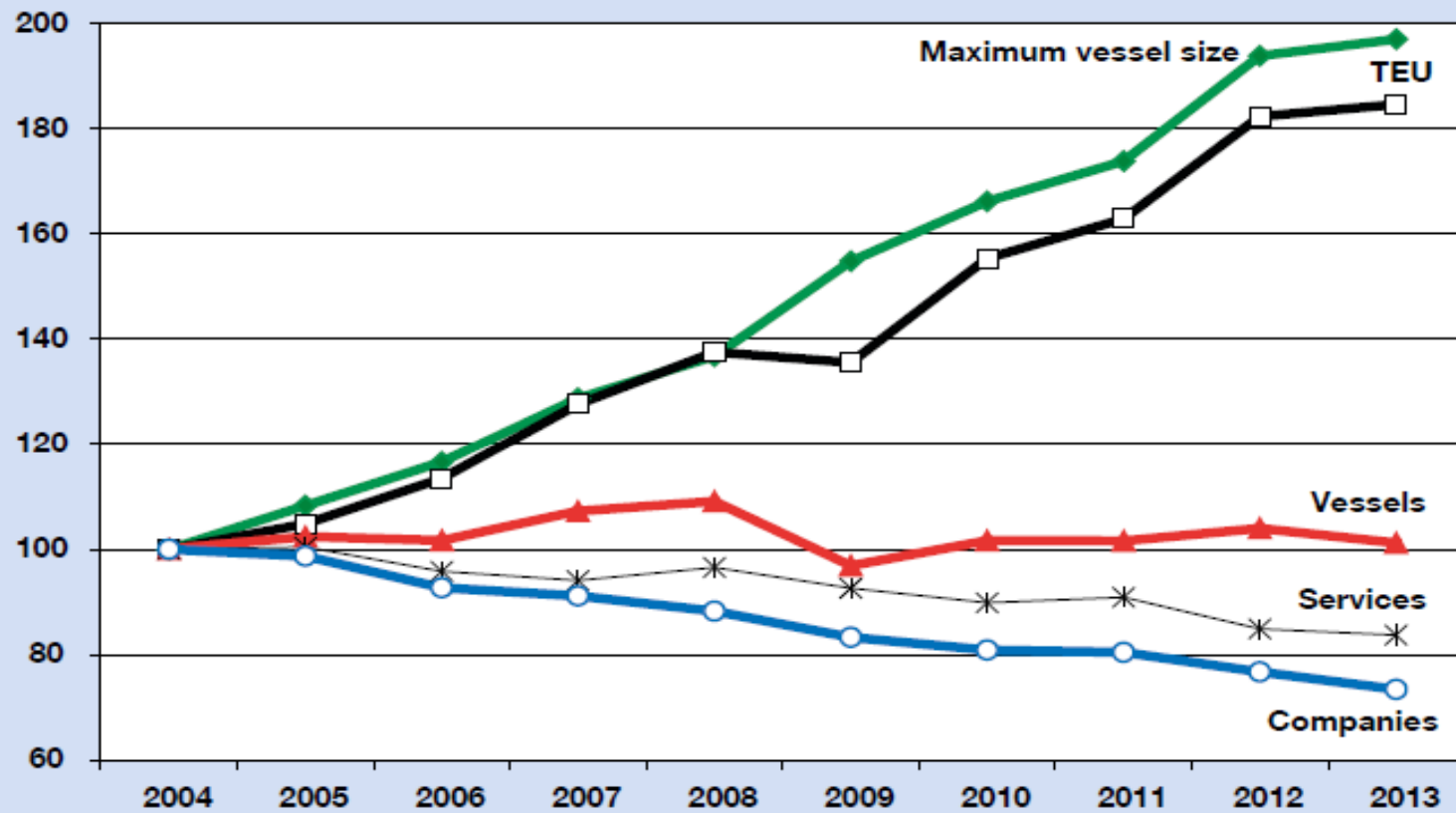
The ultimate result of this was inevitable.....



- *Operators race to keep up with each other and to be able to offer the lowest slot costs. The more their competitors build, the more each line needs to contract to remain competitive!!*



Figure 2.5. Trends in container-ship fleet deployment (Index =100 for 2004, data for mid-2004–mid-2013)



Source: UNCTAD, based on data provided by Lloyds List Intelligence.



Hapag-Lloyd



We take it personally





Million Tonnes	QUANTITIES HANDLED AT INDIAN PORTS 2011-12				
	Indian Lines		Foreign Lines		Total
	Qty.	(%)	Qty.	(%)	Qty.
POL/Products & Other Liquids					
Export	3	5.6	57	94.4	61
Import	45	20.6	173	79.4	217
Total	48	17.3	230	82.7	278



.....SO WHERE SHOULD CONTAINER SHIPS BE OPERATED?



ESTD 1929

% SHARE OF TRADE FOR ASEAN , INDIA AND EUROPE

	ASEAN	
	EXPORT	IMPORT
CHINA	10.3	13.3
JAPAN	11.7	11.2
EU	10.2	9.4
USA	8.6	8.1
ASEAN	26.4	23.6
KOREA	4.4	6.1
INDIA	2.2	2.9

	INDIA	
	EXPORT	IMPORT
EU	18.1	16
AFRICA	9.1	8.7
AMERICA	19.9	10.9
ASEAN	10.3	8.8
CHINA	4.5	11.5

	EU	
	EXPORT	IMPORT
CHINA	8.5	11.9
USA	17.2	16.2





ESTD 1929

Approx Liner Freight rates for a 20' Laden container

	Export from Nhava Sheva	Import to Nhava Sheva	Export fm CHENNAI	Import to CHENNAI
<i>all figures in usd</i>				
THAILAND	225	350	30	150
SINGAPORE	FREE	150	Free	150
P KLANG	FREE	150	Free	150
MYANMAR	550	750	250	400
Other ASEAN Region	125	350	225	350
CHINA	30	400	50	350
Europe	700	400	800	500



OUT OF 29 SERVICES CALLING NHAVASHEVA ONLY TWO SERVICES HAVE A DIRECT PORT CALL AT LAEME CHANGBANG EVERY WEEK.

SIMILARLY FROM EAST COAST INDIA (CHENNAI) THERE ARE TWO CALLS FOR LAEME CHANGBANG EVERY WEEK.

HOWEVER, EXCEPT SELECTED MALAYSIAN PORTS AND THE SINGAPORE NO OTHER ASEAN PORT IS ON LINER SERVICES RADAR. THOUGH ONE MALAYSIAN AND SINGAPORE PORT ARE CALLED BY ALMOST EVERY CONTAINER VESSEL ENROUTE FOR TRANSHIPMENT !!



Conclusions-

- Container trade between India and ASEAN would be guided by Foreign Main Lines Routing priority and at present other than Thailand it's only with a transshipment at Singapore or a Malaysian Port.
- Can it be changed ? What can be done ??



Silver Lining on Dark Clouds –

- a. Growing Intra Region trade and INTRA ASIA Trade contribute to MAJOR GROWTH. With incentives and initiatives Services could get evolved where India and some ASEAN country ports will be Primary ports in routing.***
- a. Break Bulk Operations for certain cargoes can be designed in advance with prior commitments between stakeholders.***
- b. Most of the growth is coming from non-main lane routes that require smaller ships. A major concern remains: how to reconcile the surge in supply of very large ships with trade growth generating demand for small and medium-sized units.***
- c. d. Regional Comprehensive Economic Partnership to be launched by the ASEAN Plus 6 group (Australia, China, India, Japan, New Zealand and the Republic of Korea).***

How Some Government actions have aided it's shipping interests

Tommorow's visible unfolding situations



<i>Containership Fleet ,000 Teu</i>	01-Nov-13		<i>Orderbook & Del</i>		
	No.	,000teu	No.	,000teu	% Fleet
100-999 teu	1,155	704.9	9	7.0	1.0%
1-1,999 teu	1,233	1,735.0	65	92.9	5.4%
2-2,999 teu	664	1,686.8	44	103.1	6.1%
3,000 &+ teu (Panamax)	911	3,805.5	11	38.3	1.0%
3-7,999 teu (Post-Pmax)	628	3,657.1	98	488.7	13.4%
8,000 &+ teu (Post-Pmax)	544	5,526.2	252	2,970.6	53.8%
TOTAL FLEET	5,135	17,115.4	479	3,700.5	21.6%
TOTAL M. DWT	5,135	216.3	479	42.7	19.8%

Out of 3.7 Million teu capacity under construction 2.97 million teu capacity i.e. +80 % comprises of 252 ships which are in size over 8000 teus to be specific $2970.6/252 = 11788$ teus is the average vessel size. Today India may have just one port which can accommodate this size !
4410 Teus is the biggest size of vessel operated by SCI.

Some Recent Enabling Actions by different Governments-



- Philippines CCT, which imposes a 3% tax (CCT) on **only foreign carriers' freight** revenue generated from outbound services from the Philippines.
- Levy of VAT by CHINA on International Freight but allowing Credit against purchase of Goods , Services, Assets .

Both these actions put Domestic companies at advantage over outsiders. It enhances capabilities of Domestic Logistics companies who contract with Merchants.

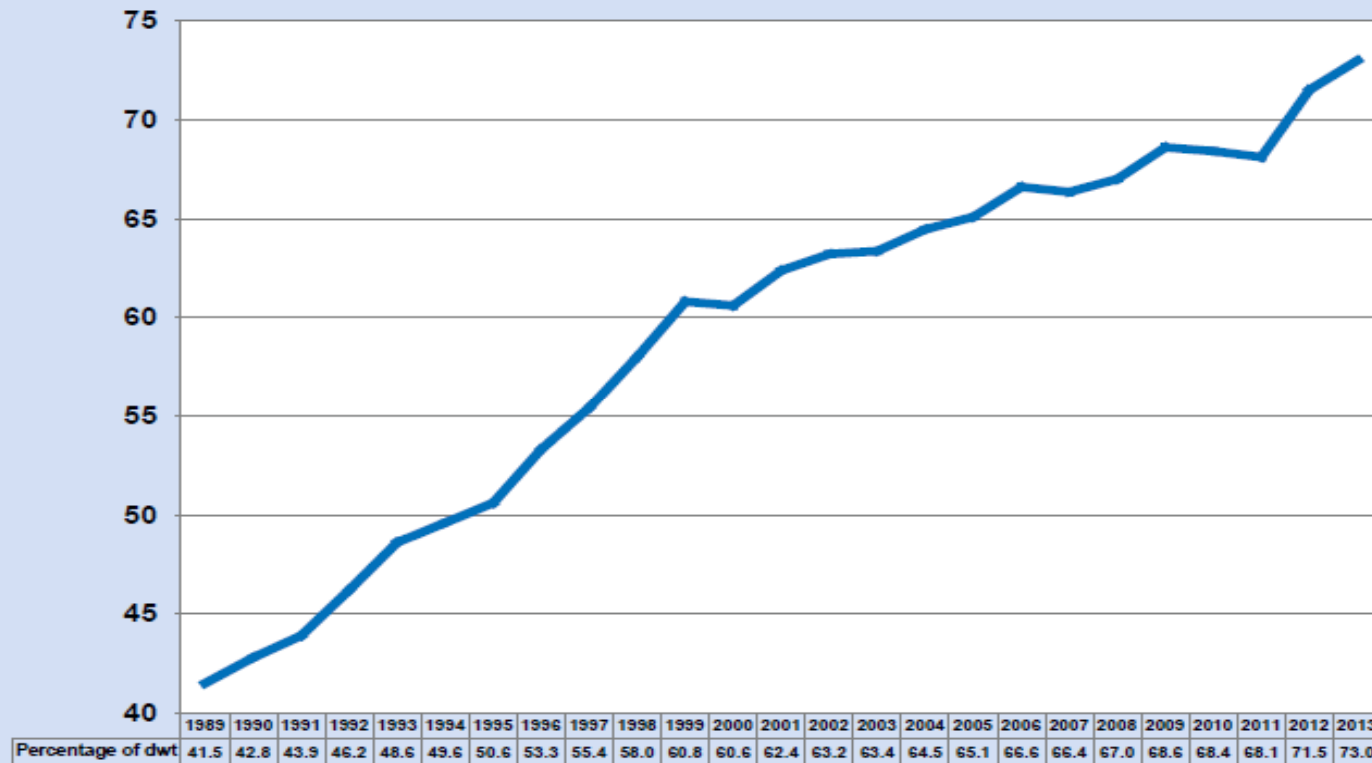
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- The Sierra Leone Shipping Act gives SLNC the status of sole National Carrier of Sierra Leone and establishes that SLNC has the right to carry out at its discretion the seaborne transportation of at least 40 % of the total volume of cargo exported out of or imported into Sierra Leone.
- China has a stated strategy to have 50% of its oil transported on ships owned by Chinese companies by the close of 2015.
- Major Maritime countries bound by NATO Agreement have adopted policies allowing Foreign owned ships to fly their flags under International Register and in turn exercise control over those ships without obligations of discharging Social responsibilities they otherwise have for Domestic companies. A look at World tonnage flagging graph looks interesting.



Figure 2.7. Global share of foreign-flagged fleet (Beginning-of-year figures, percentage of world total dwt, 1989–2013)



Source: UNCTAD, Review of Maritime Transport, various issues.

Note: Estimate based on available information of seagoing merchant vessels of 1,000 GT and above.

Does the issue of building Indian services limited only for ASEAN Trade?



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Looking at Crude Oil imports in more detail-

India's Crude Oil Transportation

	2012	2011	2010	2009
Oil imports (In '000 tonnes)	217160	208983	203741	189240
YoY CHANGE	4%	3%	8%	14%
No. of Ships voy. at avg 210000 tons per VLCC	1034	995	970	901
i.e. near 3 VLCC s every day loading for India. There are only 4 in Indian Fleet today.				



WHAT DOES THE ARITHMETIC PROVE?

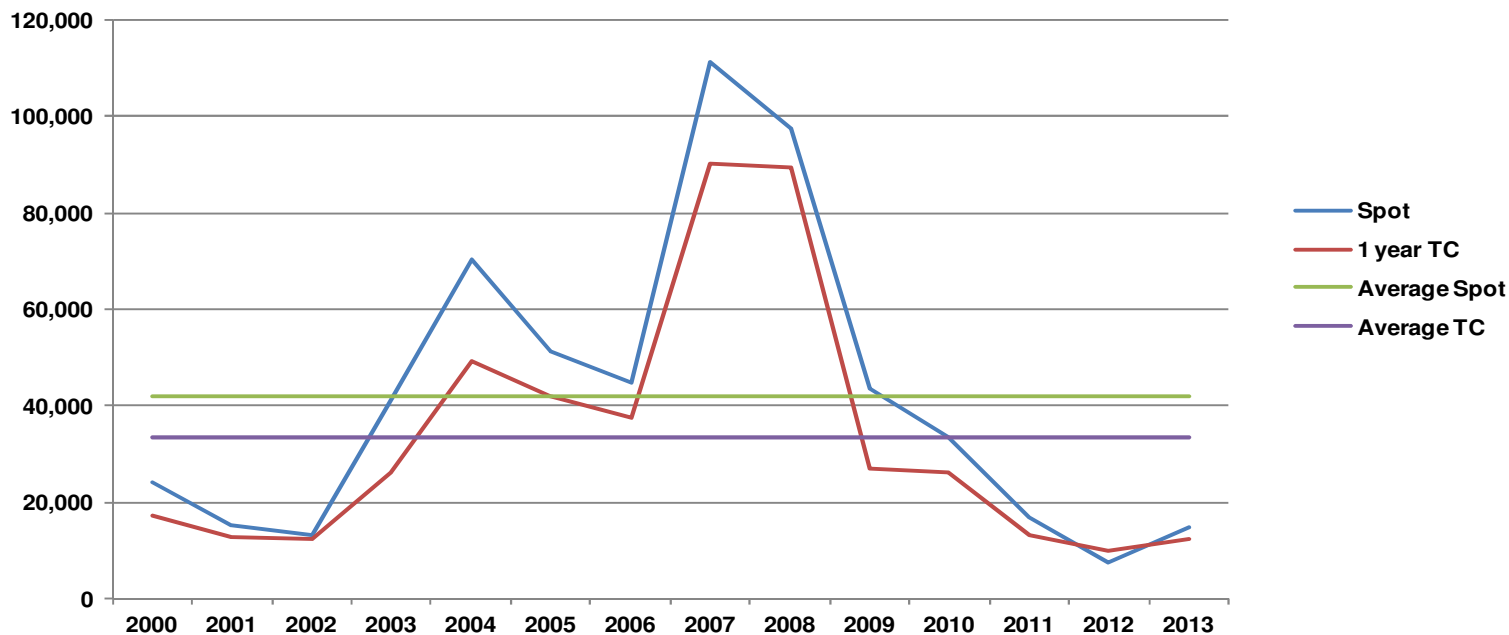


5,141 per day differential between long term spot and 1 year time charter rates.
Over 14 years, 20 VLCC's for Indian imports, that works out to \$525m of forex loss .

IT'S NOT JUST OIL BUT DRY BULK MARKET ALSO WILL PROVE THE SAME. INDIA ACCOUNTS NEAR 15% OF WORLD'S COAL IMPORTS. AND MAJOT SHARE IS FROM ASEAN REGION.



Capesize (150,000dwt) Spot versus 1 year time charter



\$8,518 per day differential between long term spot and 1 year time charter rates.
Over 14 years, 20 Capesizes for Indian imports, that works out to \$870m of forex loss



✓ To Summarize-

If we have to build capacity to service ASEAN country trade or Oil Imports, it is important that a declared long term policy to serve the purpose is necessary.

For ASEAN Container or Break Bulk trade even if Indian ships are not able to cater to requirement, capabilities of Indian Logistics players who control movement (freight) should be developed. FOB Import and CIF export should therefore be encouraged with Policy measures to achieve a stated objective.



VIEWS EXPRESSED ARE PERSONAL!



THANKS!

-Kapil Kekre

